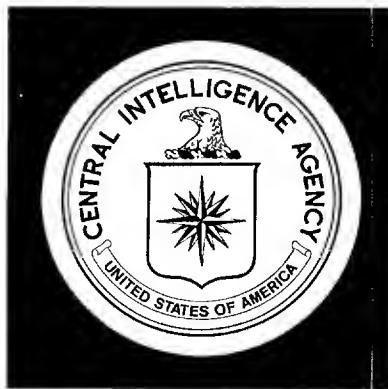


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L USSR-EGYPT: The communique marking the end of Egyptian Foreign Minister Fahmi's visit to the Soviet Union called the disengagement agreement a positive step, but indicated that the fundamental questions still remain to be settled at Geneva. Moscow's preoccupation with getting the talks back to the Geneva forum was also evident in an earlier report on Fahmi's talks with Brezhnev and Podgorny.

The communique pointedly refers to the necessity for closer coordination between Cairo and Moscow, indicating that the Egyptians felt constrained to make some gesture to meet Soviet objections to Moscow's exclusion from the disengagement talks; there is a specific reference to coordination at all levels in Geneva. This probably means that the Soviets intend to play a more obtrusive role in Geneva than heretofore. The Egyptians, who rejected Soviet participation in the deliberations of the military committee at Geneva, apparently gave some ground on this point, at least to the extent of agreeing to keep the Soviets abreast of developments in any future bilateral talks. It is doubtful, however, that Fahmi committed Egypt to giving the Soviets a role that would allow interference with the smooth progress of the negotiations. In fact, the communique tries to calm possible US apprehension by stating that closer Egyptian-Soviet coordination will not "inflict damage on anyone."

The statement gives some prominence to the Palestine question by stating that Palestinian representatives should be accorded "equal" participation in Geneva in the "nearest future." The Soviets have been taking the line with the fractious fedayeen that the Palestinians eventually would be represented at Geneva. President Sadat has been telling Arab leaders in recent days that the Palestine question would now be moved near the top of the Geneva agenda. **R**

(continued)

The communique makes no reference to future Soviet military aid to Egypt. Cairo has been concerned over what it regards as Soviet foot-dragging on re-equipping its forces. Moscow, which has been upset over its seeming lack of leverage in Cairo and at the Egyptian proclivity to deal with the US at its expense, may be doing little to reassure the Egyptians on this point.

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USSR: Soviet officials have issued a thinly veiled warning to US firms seeking to expand trade with the USSR and Eastern Europe to avoid doing business in Romania. In January meetings in Moscow with Kosygin and Foreign Trade Minister Patolichев, officials of [redacted] were warned that business ventures in Romania could jeopardize trade relations with the USSR. The US firm was encouraged, instead, to seek business in Poland, Bulgaria, and East Germany.

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Moscow may feel that it is in a strong position to exert pressure [redacted]

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[redacted] contracts concluded or in the offing with Communist countries other than Romania. The Soviets are anxious to counter any impression in the other East European states that Romania's independent foreign policy stance gives it an advantage in gaining access to Western technology. They probably hope that Kosygin's threat reaches a broader audience of US officials and firms. Moscow, however, must move carefully so as not to damage its own image as a responsible business partner, or discourage needed Western assistance. [redacted]

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FRANCE-NATO-US: Paris has rejected a US proposal for a new procedure intended to improve political consultations within NATO.

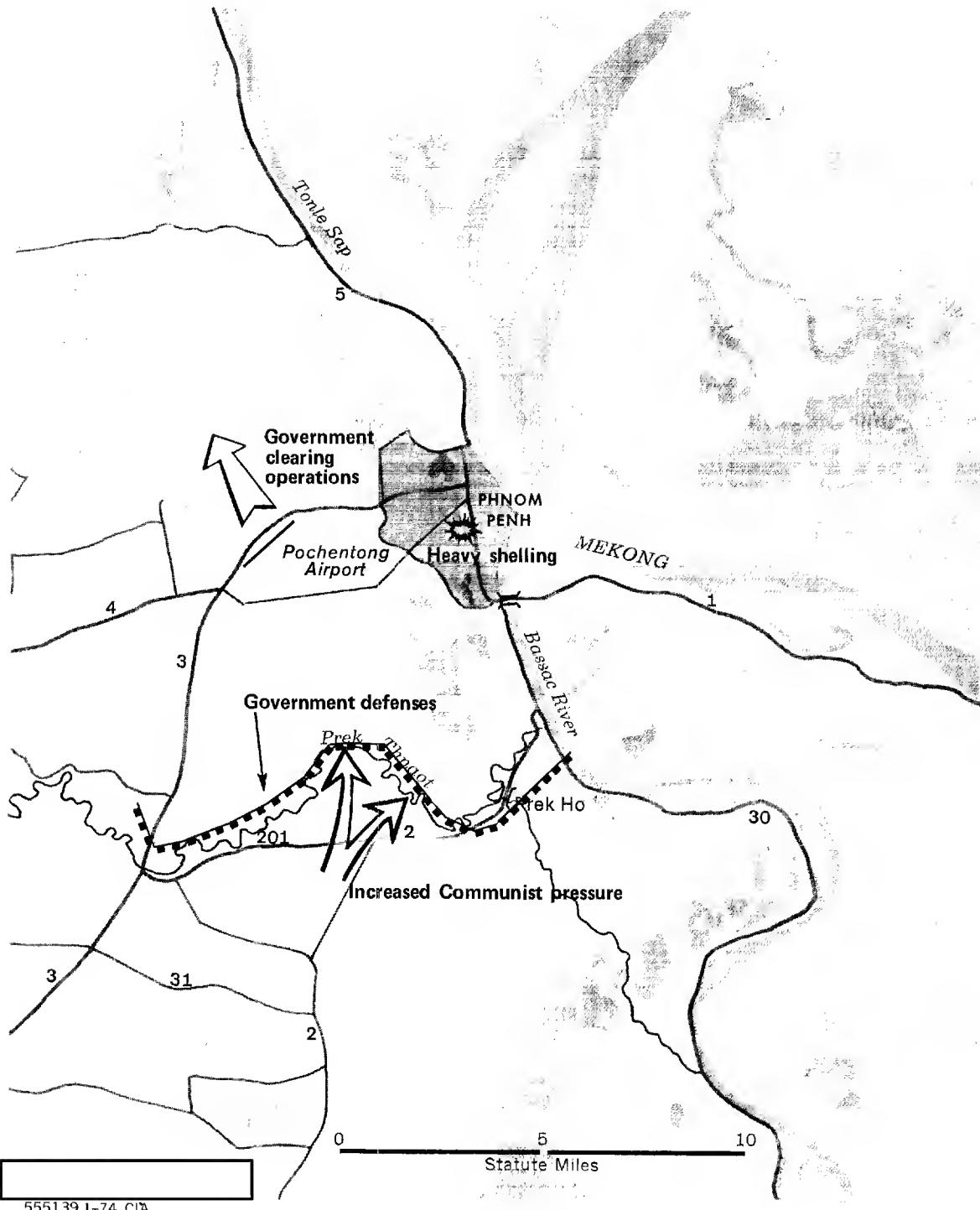
At a meeting of the permanent representatives on January 22, the French delegate, speaking on instructions from Paris, stated that France opposes regular meetings between the political directors of the NATO members and the permanent representatives to the North Atlantic Council. France believes that such consultations would duplicate the efforts of the North Atlantic Council itself and would deprecate it. Paris will not send its Foreign Office political director or the French permanent representatives to the first meeting, tentatively scheduled for February 28 or March 1.

The French have long opposed anything which threatened to "institutionalize" Atlantic political consultations and also fear the proposed procedures could detract from the regular monthly meetings of the political directors of the EC members. Several other NATO states have had mixed reactions to the US proposal, but all agree that they should hold at least one experimental meeting. The French refusal to attend, however, may lead several of the less enthusiastic NATO members to reconsider their views.

EC: Bonn hopes that the decision to double its contribution to the EC regional fund will lead to a breakthrough at the special EC Council session scheduled for January 30. A senior West German official described Bonn's decision as difficult and delicate, given the possible impact on the UK political scene. Heath had been anxious to have the regional fund approved so he could provide British voters with tangible evidence of the benefits accruing from EC membership. Initial British reaction to Bonn's move has been favorable and most of the other EC countries are probably relieved that a compromise is in the works. French willingness to go along, however, is by no means certain because France will not be a net beneficiary of the fund.

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Phnom Penh



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CAMBODIA: Military action continues to be centered in the Phnom Penh region. Communist gunners yesterday used captured 105-mm. howitzers to shell the capital, causing numerous civilian casualties and minor damage.

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Northwest of the capital, Cambodian Army units have seized the initiative from the Khmer Communists and are now conducting mopping-up operations in the area above the city's airport.

Despite ammunition shortages and increasing casualties from artillery fire and air strikes, Communist forces had held on in the northwest for over a week. Local Communist commanders apparently hoped that major attacks planned against the capital's southern defenses would divert government attention. When the effort in the south did not materialize as planned late last week, Communist resistance in the northwest wilted.

With the easing of the threat in the northwest, the government is moving some units from that sector to bolster its defenses south of Phnom Penh. Government combat strength in the south will soon be over 8,000 troops--almost double the estimated Communist strength.

The combat on the southern front has been limited to relatively small-scale engagements along the Prek Thnaot River battle line. Although the Communists have had difficulty deciding where to direct their major effort, they have still been able to push government forces north of the river in several areas.

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar weakened somewhat in major European centers yesterday, but still remains above last week's levels against most European currencies, especially the French franc and the lira. Sterling, aided by an easing of Euro-dollar rates, closed at its highest level relative to the dollar since January 14. The price of gold scored another major gain, reaching \$141 an ounce on the London market.

The French franc's improvement against the dollar was aided by central bank dollar sales amounting to \$40 million. The Bank of France has now sold approximately \$330 million to cushion the franc's fall since its decision to float last weekend. At the same time, the franc has been depreciating relative to most other European currencies.

The remnants of the European joint float came under some pressure yesterday as the Norwegian crown reached the top of the band and the Danish crown, Belgian franc, and Dutch guilder sank to the bottom.

 In Tokyo the dollar opened fractionally lower today, with no apparent intervention by the central bank. Yesterday, the Bank of Japan sold \$70 million to maintain the exchange rate at 300 yen to the dollar.

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GATT: The multilateral trade negotiations being sponsored by GATT in Geneva are finally beginning to move forward.

Late last week the US and the EC agreed on a work program, breaking the deadlock over the treatment of agricultural trade issues that had been holding up preliminary discussions since October. The proposed work program was submitted to a meeting of key delegations early this week in Geneva, and it was agreed that the full committee will meet on February 7 to approve the program and a schedule for the next stage of the negotiations. The trade negotiations committee--set up to guide the trade talks--can now begin preliminary work.

All delegations agreed to the overriding importance of proceeding with the committee's work, and that any changes in the US-EC proposal should not be permitted to cause delay. Substantive discussions will probably begin in mid-February.

ARGENTINA: Buenos Aires is putting pressure on a US subsidiary to sell a substantial number of vehicles to Cuba in violation of US sanctions. The proposed sale of 1,500 Ford passenger cars and 1,000 heavy trucks follows negotiations held this month when a Cuban trade mission visited Argentina.

Argentine officials have stated that, if Ford does not comply, the company will be forced to sell the vehicles to the Argentine Government for subsequent delivery to Cuba. Failure to sell would also result in Ford not meeting its export quota imposed by the government, and thus subject the company to a loss of a proportionate share of the domestic market, according to a new government regulation. As it is, future exports of a large volume of vehicles will result in either shortchanging the domestic market or requiring additional capital investment by the US company to expand capacity. Ford has already applied for a waiver from the US Treasury Department to allow the transaction.

The transaction falls under a credit--which could eventually amount to \$1.2 billion--offered by the Argentines to finance exports to Cuba. Initial delivery would begin in about three months, with subsequent sales to be made over the life of the credit arrangement.

AUSTRALIA: Official estimates for this year's wheat crop have been revised downward by more than 1 million tons. Because of poor weather and disease, production will at best reach only 11 million tons, and at least 15 percent of this will be low-quality wheat. While Australia will probably be able to supply its traditional markets this year, little additional wheat will be available for other markets. The Australian Wheat Board is currently refusing orders from new customers. An estimated three quarters of the 7.5 million tons available for export in 1974 has already been committed.

VENEZUELA: President Caldera reportedly is considering requiring the oil companies to pay an even larger percentage of their royalties in crude.

Earlier this month, the government announced that beginning April 8 the companies will be required to pay 18 percent of the royalties in crude. Now, the Caldera administration apparently intends to raise this figure to 30 percent before it leaves office in early March. This action would be consistent with Venezuela's increasing interest in using its oil for political advantage in dealing with other Latin American countries.

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